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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Kaufman Bros., L.P.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

800 Third Avenue

(No. and Street)

New York

New York

10022

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Gerard A. Durkin

(212) 292-8120

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Rothstein, Kass & Company, P.C.

(Name -- if individual, state last, first, middle name)

4 Becker Farm Road

Roseland

New Jersey

07068

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

PROCESSED

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THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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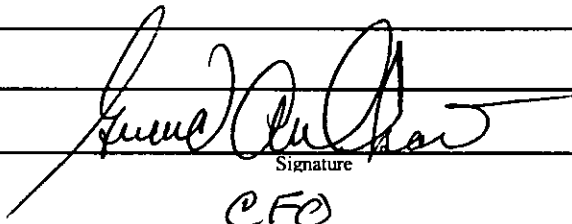
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3/24

## OATH OR AFFIRMATION

I, Gerard A. Durkin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kaufman Bros., L.P., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

MELISSA MARTINEZ  
Notary Public, State of New York  
No. 01MA6106361  
Qualified in Kings County  
Commission Expires March 1, 2008

Melissa Martinez  
Notary Public

  
Signature  
CFO  
Title

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal accounting control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**KAUFMAN BROS., L.P. AND SUBSIDIARY**

**STATEMENT OF FINANCIAL CONDITION  
AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2007**

# **KAUFMAN BROS., L.P. AND SUBSIDIARY**

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Certified  
Public  
Accountants

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Dallas  
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San Francisco  
Walnut Creek

# Rothstein Kass

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Kaufman Bros., L.P.

We have audited the accompanying consolidated statement of financial condition of Kaufman Bros., L.P. and Subsidiary (collectively "the Partnership") as of December 31, 2007. This consolidated statement of financial condition is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this consolidated statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Kaufman Bros., L.P. and Subsidiary as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
February 22, 2008

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

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December 31, 2007

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### ASSETS

Cash and cash equivalents	\$ 3,577,211
Receivable from clearing broker	385,136
Fees receivable, net	10,839
Securities owned, non-marketable at fair value	35,701
Investments, at fair value	205,090
Certificate of deposit	102,086
Property and equipment, net	241,958
Due from nonconsolidated affiliate	50,000
Prepaid expenses	41,180
Other assets	<u>20,059</u>
Total assets	<u>\$ 4,669,260</u>

### LIABILITIES AND PARTNERS' CAPITAL

#### Liabilities

Accrued compensation costs	\$ 1,235,450
Accounts payable and accrued expenses	401,568
Capital lease obligation	110,653
Subordinated loans	<u>525,000</u>
Total liabilities	2,272,671

#### Partners' capital

2,396,589

Total liabilities and partners' capital	<u>\$ 4,669,260</u>
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# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Nature of operations

Kaufman Bros., L.P. and Subsidiary (collectively the "Partnership") is a Delaware limited partnership formed to engage primarily in investment banking, brokerage and securities trading, corporate consulting and other related activities. Kaufman Bros., L.P. ("Kaufman Bros.") is managed by KB Management, LLC (the "General Partner") and is a registered broker-dealer pursuant to the Securities Exchange Act of 1934. Additionally, Kaufman Bros. is a member of the Financial Industry Regulation Authority, Inc. (the "FINRA"), an entity created through the consolidation of the National Association of Securities Dealer ("NASD") and the member regulation, enforcement and arbitration functions of the New York Stock Exchange.

The accompanying consolidated financial statements include the accounts of Kaufman Bros. and its wholly-owned Subsidiary, KBRO Capital, LLC ("KBRO LLC"). KBRO LLC was formed on November 15, 1999 as a limited liability company under the laws of the State of New York. KBRO LLC engages primarily in venture capital activities.

### 2. Summary of significant accounting policies

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Kaufman Bros. and KBRO LLC. All significant inter-company transactions and balances have been eliminated in consolidation.

#### *Cash and Cash Equivalents*

The Partnership considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

#### *Fees Receivable*

The Partnership carries its fees receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Partnership evaluates its fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts are written-off as uncollectible once the Partnership has exhausted its collection means. There was no allowance for doubtful accounts as of December 31, 2007.

#### *Securities Owned, non-marketable at Fair Value*

Securities not readily marketable represent warrants and restricted stocks, which are not publicly traded and are valued at fair value as determined by the General Partner. Fair value is based upon the consideration of factors such as the value of the underlying security, restrictions on the conversion of the warrant and liquidity of the security. As of December 31, 2007, the General Partner determined that the fair value of all warrants and restricted stocks is approximately \$36,000.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of significant accounting policies (continued)

#### *Investments, at Fair Value*

KBRO LLC holds a 4.35% equity interest in GLQ Entrepia, Inc., a 0.76% equity interest in Entrepia Fund II, L.P. and a 0.66% equity interest in Global Ling International Fund I, LLC. These private investment company investments are recorded at fair value, based upon management's assessment on the underlying net asset values.

#### *Property and Equipment*

Property and equipment is stated at cost less accumulated depreciation and amortization. The Partnership provides for depreciation and amortization as follows:

Asset	Estimated Useful Life	Principal Method
Furniture and fixtures	5 years	Straight-line
Computer hardware and software	3 years	Straight-line
Leasehold improvements	Lease term	Straight-line

#### *Commission Revenue from Securities Transactions*

Proprietary securities transactions are recorded on a trade date basis. Commission revenues and related expenses resulting from customers' securities transactions are recorded on a trade date basis.

#### *Investment Banking Fees, General Advisory and Other*

Investment banking fees include consulting fees which are recognized based on the terms of the contracts and are recorded when the services are rendered. Other investment banking fees include public offering fees such as financing and underwriting fees, which are recorded when the particular offer is issued.

#### *Income Taxes*

The Partnership is not subject to federal or state income taxes and, accordingly, no provision for these income taxes has been made in the accompanying consolidated financial statements. The partners are required to report their proportional share of gains, losses, credits and deductions on their respective income tax returns. The Partnership is subject to New York City unincorporated business tax, for which \$115,000 has been recorded as of December 31, 2007.

The Partnership complies with the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to the periods in which the differences are expected to effect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.



# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of significant accounting policies (continued)

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. Property and equipment

Property and equipment consist of the following at December 31, 2007:

	<b>Cost</b>	<b>Accumulated Depreciation and Amortization</b>	<b>Net Book Value</b>
Furniture and fixtures	\$ 89,348	\$ 17,714	\$ 71,634
Computer hardware and software	73,640	19,841	53,799
Leasehold improvements	123,207	6,682	116,525
	<u>\$ 286,195</u>	<u>\$ 44,237</u>	<u>\$ 241,958</u>

At December 31, 2007, the above property and equipment includes capital leases of \$114,214 and related accumulated amortization of \$3,602.

### 4. Securities owned, non-marketable at Fair Value

Details of securities owned at December 31, 2007 are as follows:

	<b>Non-marketable securities</b>
Warrants	\$ 35,000
Restricted stock	<u>701</u>
	<u>\$ 35,701</u>

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. Due from non-consolidated affiliate

Due from non-consolidated affiliate is non-interest bearing and due on demand.

### 6. Obligations under capital leases

Aggregate minimum lease payments for obligations under capital leases, with imputed interest 10.8%, per annum, in the periods subsequent to December 31, 2007 are as follows:

Period ending December 31,	
2008	\$ 55,607
2009	54,617
2010	<u>15,104</u>
Total minimum lease payments	125,328
Less amount representing interest	<u>14,675</u>
Present value of minimum lease payments	<u>\$ 110,653</u>

### 7. Commitments and contingencies

The Partnership leases office space in New York City, expiring May 31, 2017, and San Francisco, California, expiring October 31, 2008, under operating leases having non cancelable lease terms in excess of one year. In addition to base rent, certain of the leases provide for the Partnership to pay a proportionate share operating costs and are subject to escalation clauses based on the Consumer Price Index.

At December 31, 2007, future aggregate minimum annual rent payments under these leases are approximately as follows:

Year ending December 31,	
2008	\$ 764,000
2009	705,000
2010	705,000
2011	705,000
2012	706,000
Thereafter	<u>3,127,000</u>
	<u>\$ 6,712,000</u>

Rent expense, including certain other rent charges, for the year ended December 31, 2007 were approximately \$660,000.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. Commitments and contingencies (continued)

The New York City lease calls for a security deposit of \$100,000, which has been satisfied by a letter of credit. The Partnership has collateralized such letter of credit with a certificate of deposit. The security deposit for the California lease was satisfied by a cash deposit with the landlord in the amount of \$6,230.

In the normal course of business, the Partnership has been named as a defendant in various matters. Management of the Partnership believes that the resolution of these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Partnership.

### 8. Employee benefit plan

All employees of the Partnership are eligible to participate in the Partnership's qualified 401(k) retirement plan. The Partnership currently matches twenty-five cents for each dollar of employee contributions. For the year ended December 31, 2007, the Partnership contributed approximately \$78,000 towards the qualified 401(k) retirement plan.

### 9. Liabilities subordinated to claims of general creditors

At December 31, 2007, the Partnership had a subordinated loan agreement with its General Partner which was in accordance with an agreement approved by the NASD. The terms of the subordinated loan agreement are as follows:

\$525,000 loan agreement maturing on August 1, 2010 and bearing interest at 2% over the average six month LIBOR rate (5.09% at December 31, 2007) calculated on a monthly basis.

The loan agreement has been approved as regulatory capital and constitutes part of the Partnership's net capital under the SEC's Uniform Capital Rule 15c3-1.

### 10. Off-balance-sheet risk

Pursuant to clearance agreements, the Partnership introduces all of its securities transactions to clearing broker on a fully disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing broker. In accordance with the clearance agreement, the Partnership has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Partnership. In accordance with industry practice and regulatory requirements, the Partnership and the clearing broker monitor collateral on the customers' accounts.

In addition, the due from and payables to clearing broker are pursuant to the clearance agreement.

In the normal course of business, securities transactions of brokerage customers of the Partnership are cleared through a clearing broker. Pursuant to an agreement between the Partnership and the clearing broker, the clearing broker has the right to charge the Partnership for unsecured losses that result from a customer's failure to complete such transactions. During the year ended December 31, 2007, no such losses were incurred.

# **KAUFMAN BROS., L.P. AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **11. Concentration of credit risk**

The Partnership maintains its cash in financial institutions, which at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash.

The Partnership is engaged in trading activities with various counterparties. In the event counterparties do not fulfill their obligations, the Partnership may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Partnership's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

### **12. Exemption from Rule 15c3-3**

The Partnership is exempt from Securities Exchange Commission ("SEC") Rule 15c3-3 pursuant to the exemptive provisions of sub-paragraph (k)(2)(ii) and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive benefit of Customers."

### **13. Net capital requirements**

Kaufman Bros. is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At December 31, 2007, Kaufman Bros.'s net capital (unconsolidated) was approximately \$2,143,000 which was approximately \$1,893,000 in excess of its minimum requirement of \$250,000.

Proprietary accounts held at the clearing broker ("PAIB Assets") are considered allowable assets in the computation pursuant to an agreement between the Partnership and the clearing broker, which requires, among other things, for the clearing broker to perform a computation for PAIB Assets similar to the customer reserve computation set forth in SEC Rule 15c3-3.

**END**